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SUBJECT: KENYA: OCTOBER ECONOMIC HIGHLIGHTS

REF: A) Nairobi 1423 B) 08 Nairobi 2166 C) Nairobi 373 and previous

TABLE OF CONTENTS

- [1. IMF FORECASTS CY2009 2.7% ECONOMIC GROWTH](#)
- [2. TOURISM SHOWS SIGNS OF RECOVERY](#)
- [3. WILDLIFE THREATENED BY DROUGHT AND INCREASED POACHING](#)
- [4. CORRUPTION SURFACES AT THE MINISTRY OF EDUCATION](#)

[1. IMF FORECASTS CY2009 2.7% ECONOMIC GROWTH](#)

IMF reps briefed donors October 28 on the outcome of their annual Article IV Consultations. The reps said they expect Kenya's economy to grow by 2.7% in CY2009. Given Kenya's 2.9% population rate, per capita GDP would decline this year. Drought and the continuing impact of the global slump significantly contributed to Kenya's lackluster economic performance, according to the Fund. The reps praised the Central Bank of Kenya's expansionary monetary policy and the government's fiscal stimulus (ref a). They expressed disappointment that the government continues to embrace an outdated method of calculating the consumer price index, which puts an upward bias on measured inflation (ref b), currently 18%. Looking ahead to 2010, the IMF reps saw continuing strength in the banking sector and a steady recovery in manufacturing and tourism, likely leading to over 3% GDP growth; agriculture and global demand remained key variables of the strength of future economic growth. The reps did not expect Kenya's economy to return to 6% GDP growth (roughly the level before the 2008 post-election violence and global financial crisis) until 2013.

[2. TOURISM SHOWS SIGNS OF RECOVERY](#)

The Kenyan tourism sector appears to be experiencing a recovery from its 2008 decline caused primarily by post-election violence and the global economic slowdown. According to the Kenya Tourism Board (KTB), revenues in the tourism sector through August 2009 totaled an estimated Ksh 36.64 billion compared to Ksh 33.24 billion for the same period in 2008, an improvement of 10.2%. International arrivals during the same period were up 38.6% compared to 2008. The GOK attributes the recovery to increased international marketing, including its Internet site www.magicalkenya.com, discounted travel

packages, and visa fee reductions. Despite the improvement, receipts have not reached the 2007 peak of Ksh 44.63 billion, a benchmark year for the sector. KTB expects that international tourism arrivals will close at approximately 930,000 at the end of 2009, still below the historic 2007 high of 1,048,738 but significantly surpassing the 2008 arrival number of 729,000.

13. WILDLIFE THREATENED BY DROUGHT AND INCREASED POACHING

Severe drought and increased poaching have threatened wildlife in and around Kenya's protected wildlife areas. According to the Kenya Wildlife Service (KWS), approximately 100 elephants, at least 80 hippos and large numbers of antelope and other animals have died as a result of severe drought this year, the worst in 40 years. The hardest hit areas are the Laikipia, Samburu, Amboseli, and Tsavo reserves where animals have had to travel farther to find water and competition for pastureland is escalating as pastoralists increasingly graze livestock in protected areas. In Tsavo alone, it is estimated that 200,000 livestock have moved into the area, displacing wildlife and causing increased erosion.

To mitigate the effects of drought, KWS is supplying hay to certain species, especially hippos in Tsavo National Park. KWS has also posted 40 rangers to care for 15 rhinos in Tsavo West. KWS and other wildlife experts agree that the expected increase in rainfall from the short-rains season that has just begun will help wildlife populations rebound in the long-term, although flooding may increase losses of weak and young animals in the short-term. However, they say that long-term strategies (i.e. water harvesting, mitigation of human-wildlife conflict through rangeland management) must be implemented to prevent further loss as the time between drought

cycles appears to be decreasing.

Exacerbating the losses caused by drought, at least 140 elephants have been killed for their tusks so far this year, up from 98 in 2008. KWS links the increase in elephant poaching to Chinese laborers working on infrastructure projects and living in camps near protected areas. According to the East Africa Regional Director of the International Fund for Animal Welfare, the 2007 CITES decision to allow a one-off sale of legal ivory from three Southern African countries (ref c) has increased demand for ivory in China, providing a ready market for poachers in Kenya. To combat the increase in poaching, KWS has posted surveillance rangers near the camps as well as sniffer dogs at Jomo Kenyatta International Airport (JKIA). KWS reports that 90% of ivory smugglers detained at JKIA are Chinese nationals.

14. CORRUPTION SURFACES AT THE MINISTRY OF EDUCATION

Two recent corruption scandals have arisen within the Ministry of Education (MoE). In the first scandal, MoE officials misappropriated approximately \$1.3 million from two programs, the Kenyan Education Sector Support Program and the Western Kenya Community Driven Development project. These two programs are funded by the World Bank and the UK Department for International Development (DfID). The Ministry of Finance has taken strong measures by suspending the programs and 25 MoE officials. In the second scandal, the MoE is alleged to have lost approximately \$17.3 million of textbooks from the Free Education Program over the last four years. Newspapers reported that the textbook losses occurred as a result of fraud, theft, and destruction. The MoE stated that the losses occurred as a result of the political violence in 2007/2008, poor storage, and natural atrophy. The primary donor, DfID, is reviewing the issue but is not expected to pull funding from the program. DfID considers the Free Education Program to be a major success and the level of losses to be within reason.

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